

Market risk management policy

I -OBJECTIVE

II -ASSOCIATED REGULATIONS

III - DEFINITION OF MARKET RISK

IV - RISKS INHERENT TO PARANÁ BANCO

V -HEDGING STRATEGY

VI -MAIN DUTIES OF THE MARKET RISK MANAGEMENT DEPARTMENT

VII - STRUCTURE

I - OBJECTIVE

The Market Risk Management Policy of Paraná Banco and its conglomerate complies with the guidelines established by the Central Bank of Brazil and is consistent with the nature of the Bank's operations, the complexity of its products and the level of exposure to market risk, is approved and revised on an annual basis by the Risk Committee and Senior Executive Committee and indicates strategies for Paraná Banco with regard to its structure and principles, which are subsequently submitted for approval to the Board of Directors.

Paraná Banco is managed by the Senior Executive Committee and the board of directors, and in parallel there are committees that guarantee the policies and strategies of its various areas, and the internal control processes are continuously monitored by the internal control department.

II – ASSOCIATED REGULATIONS

National Monetary Council (CMN) Resolution 3,464/07..

III - DEFINITION OF MARKET RISK

Market risk is defined as the potential for losses resulting from fluctuations in the market value of the positions held by Paraná Banco and its conglomerate, including the risks of operations subject to variations in exchange rates, interest rates, stock prices and commodity prices.

[Topo](#)

IV -RISKS INHERENT TO PARANÁ BANCO

4.1 Interest Rate Risk

Interest rate risk derives from the pricing of assets and liabilities at different moments, unexpected fluctuations in the slope and shape of yield curves and changes in the matching of the interest rates of different financial instruments. Paraná Banco is exposed to the risk of fluctuations in interest rates when there is a mismatch between our interest rates and the market's. We seek to manage assets and liabilities through controls effective for our operational size, seeking to reduce the potential negative impacts on net interest income that could be caused by variations in interest rates.

Market risk from trading activities derives mainly from positions in fixed-rate government bonds from operations involving securities purchased for resale. All trading activity is based on operational limits, which are approved by the Risk Committee and Senior Committee and constantly monitored by an independent department.

4.2 Foreign Exchange Risk

Foreign exchange risk derives from holding assets, liabilities or items denominated or pegged to foreign currencies. Paraná Banco manages its foreign exchange exposure to adjust the mismatch between assets and liabilities pegged to variations in foreign currencies, especially in derivative operations. Our strategy does not include holding significant and long exposures to foreign exchange risk

V - HEDGING STRATEGY

Paraná Banco seeks to mitigate the exposure of its positions to market risk. The decisions regarding hedge positions exposed to foreign exchange variation (mainly the U.S. dollar) resulting from the international issue of bonds by the Bank are taken by the senior executive committee.

The other decisions involving the hedging of risks mentioned in this document are considered and authorized by the Senior Executive Committee.

Hedge instruments such as the following are currently considered:

- Currency and interest rate futures contracts traded on the BM&FBovespa;
- Forward currency contracts – Non-Deliverable Forward (NDFs); and
- Interest rate and currency swap contracts in the local market.

Risk management parameters used: market risks are evaluated using the following tools and reports submitted to senior management: analysis of sensitivity to variation in market rates and prices, Value at Risk (VaR) calculated based on the factors of the Brazilian Central Bank, with a confidence level of 99%, currency exposure limits and stress tests. The market risk department is responsible for calculating and controlling these parameters, as well as for monitoring the limits defined by the Risk Committee.

[Topo](#)

VI - MAIN DUTIES OF THE MARKET RISK MANAGEMENT DEPARTMENT

- Measuring and controlling risk assumption at the Paraná Banco Conglomerate;
- Defining the methodology to be used for measuring risk;
- Providing information on market risk exposure;
- Controlling the use of authorized operational limits on a daily basis and informing the risk committee of any excess and extrapolations;
- Performing tests to monitor the accuracy of the market risk evaluation models based on the results observed in the portfolios analyzed versus the VaR calculated (backtesting); and
- Conducting simulations of extreme market conditions (stress testing) based on scenarios determined by the Risk Committee.the Risk Committee.

The Management structure includes methodologies and tools for measuring, monitoring and controlling exposure to market risk.

Market risk monitoring activities are subject to evaluation by the compliance department and the internal and external auditors, as well as to inspection by the Central Bank of Brazil. Therefore, as per CMN Resolution 3,464/07, the Bank's market risk management is consistent with all regulations and best market practices.

VII - STRUCTURE

7.1 Executive Board and Board of Directors

Responsible for approval and regular review of the Market Risk Management Policy, these bodies also constantly monitor operational limits and procedures for maintaining market risk exposure at levels considered acceptable by the institution

7.2 Risk Committee

Created to support the Senior Executive Committee and act jointly with it to identify, analyze, monitor, measure and control the corporate risks of Paraná Banco, it is charged with assuring compliance with CMN Resolutions 2,804/00, 3,380/06, 3,464/07 and 3,721/09, which govern the implementation of the structures for managing liquidity, operational, market and credit risks.

The committee is also responsible for promoting a culture of risk management and controls in the organization, emphasizing and demonstrating the benefits of an approached based on risks.

7.3 Officer Responsible for Market Risk

Officer appointed to represent Paraná Banco at the Central Bank of Brazil, who will be responsible, jointly with the Risk Committee, for validating and approving the policies and general objectives, as well as for supporting the Board of Directors and other Officers with relevant information on the structure and results of Market Risk Management.

7.4 Manager Responsible for Market Risk

Appointed by the Officer Responsible for managing the Market Risk Management structure. Responsible also for the information, communication and disclosure process.

[Topo](#)